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Office of the Legislative Auditor

State of Montana

Report to the Legislature

December 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Montana Chiropractic Legal Panel

This report contains two recommendations addressing Chiropractic Legal Panel revenue collections and recording expenditures in the proper year.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1994

Montana Chiropractic Legal Panel

Members of the audit staff involved in this audit were: Laurie Evans and Lorry Parriman.

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Operations and EDP Audit
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Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

December 1994

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Chiropractic Legal Panel for the two fiscal years ended June 30, 1994. The report contains two audit recommendations relating to revenue procedures and proper recording of expenditures. The panel's written response to the audit is included in the back of the audit report.

We thank the Montana Chiropractic Legal Panel staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Administrative Officials

Montana Chiropractic Legal Panel	Mary Lou Garrett, Director

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the panel's response thereto, and a reference to the supporting comments.

Recommendation #1	We recommend the panel implement procedures to ensure the panel receives the revenues to which it is entitled.	4
	Panel Response: Concur. See page B-3.	
Recommendation #2	We recommend the panel record its financial activity on the state's accounting system in the proper fiscal year.	5
	Panel Response: Concur. See page B-3.	

Introduction

Introduction

We performed the financial-compliance audit of the Montana Chiropractic Legal Panel for the two fiscal years ended June 30, 1994. The audit objectives were to:

1. Determine the panel's compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the panel.
3. Determine if the financial schedules present fairly the results of operations of the panel for the two fiscal years ended June 30, 1994.
4. Determine the implementation status of prior audit recommendations.

This report contains two recommendations to the panel. These recommendations address areas where the panel can improve internal controls and financial reporting. Other areas of concern not having a significant effect on the successful operations of the panel are not included in this report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Montana Chiropractic Legal Panel (panel) was established as a state agency in January 1990 by Chapter 262, Laws of 1989. It's duties are set forth in Title 27, chapter 12, of the Montana Codes Annotated.

The panel reviews malpractice claims made against chiropractic physicians. It must hear and make a decision on a claim before the claim can be filed in court. The panel determines if there is substantial evidence the stated act or omission occurred, whether the act or omission constitutes malpractice, and if there is reasonable medical probability of injury because of the act or omission.

The executive director of the Montana Chiropractic Association appoints the panel director, subject to the approval of the chief justice of the Montana Supreme Court.

The panel is administratively attached to the Montana Supreme Court. However, the panel does its own accounting and budgeting. Funding for the panel is from an annual fee assessment to chiropractic physicians, as further explained on page 4. The panel has statutory appropriation authority to spend the fee assessment revenues on panel hearings and operational expenditures.

Each time a hearing is held the director selects the panel members. Each panel consists of three attorneys and three chiropractic physicians. One of the attorneys is chosen to be the chairperson. The panel held three hearings in fiscal year 1992-93 and two in fiscal year 1993-94.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the panel's financial-compliance audit for the two fiscal years ended June 30, 1992. The report contained one recommendation with four parts. The panel implemented three of the four individual recommendations and did not implement one. In the panel's response to our prior audit, it concurred with the recommendation which was not fully implemented.

The recommendation which was not implemented related to ensuring the revenue amounts recorded on SBAS were accurate and is discussed on page 4.

Findings and Recommendations

Reasonableness of Assessment Revenue

The panel receives its funding from an annual fee assessed to chiropractic physicians. State law requires the panel director to determine the amount of the assessment annually. The amount of the assessment is to be commensurate with the costs of administering the program. The Board of Chiropractors (board) at the Department of Commerce collects the revenue and deposits the money in the state treasury to the credit of the panel. The board includes the assessment with the chiropractic physician's license renewal notices and requests payment before the September 30 license renewal deadline. Total revenue recorded for fiscal years 1992-93 and 1993-94 was $15,144 and $12,900, respectively.

For fiscal years 1992-93 and 1993-94, we reviewed the renewal files to determine the number of renewals subject to assessment. We projected revenue collections of the fee based upon the number of chiropractic licenses issued each year. Our estimate of revenues closely approximate actual revenue recorded for the audit period. However, since the fees are collected by a third party there is a need for monitoring procedures by the panel. These procedures could include a review of renewal files or a comparison of actual revenues to estimated revenues. If actual revenues are below or above the estimate, the panel should determine the reason(s) for the difference. Such monitoring should take less than one day per year. A similar recommendation was made to the panel in the previous audit, however, due to turnover in the director's position, a review of revenue collections did not occur.

Recommendation #1

We recommend the panel implement procedures to ensure the panel receives the revenues to which it is entitled.

Recording Expenditures in the Wrong Fiscal Year

Section 17-1-102(5), MCA, states: "All state agencies, . . . shall input all necessary transactions to the accounting system . . . before accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable, in accordance with generally accepted accounting principles (GAAP)."

The agency incurred expenditures related to a June 24, 1993 Montana Chiropractic Legal Panel Hearing in the amount of $1,649. These fiscal year 1992-93 expenditures were not recorded until fiscal year 1993-94. Therefore, expenditures for fiscal year 1992-93 and 1993-94 are misstated by this amount. This misstatement caused us to give a qualified opinion on the panel's financial schedules.

Because of turnover in the director position we could not determine why the expenditures were not recorded in the proper year. The current director has stated that activity will be more accurately accounted for under her administration.

Recommendation #2

We recommend the panel record its financial activity on the state's accounting system in the proper fiscal year.

Independent Auditor's Report & Panel Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The independent auditor's report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. The financial schedules included in this report are prepared from the Statewide Budgeting and Accounting System without adjustments.

We issued a qualified opinion because of the misstatement of expenditures between the two fiscal years of the audit. The fiscal year 1992-93 expenditures are understated by $1,649 and fiscal year 1993-94 expenditures are overstated by the same amount because costs related to a panel hearing were recorded in the wrong year. The reader should use caution when using the financial information presented in these schedules.

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Chiropractic Legal Panel for each of the two fiscal years ended June 30, 1993 and 1994, as shown on pages A-4 through A-8. The information contained in these financial schedules is the responsibility of the legal panel's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the legal panel's assets and liabilities.

The legal panel recorded $1,649 of expenditures in the wrong year which understated fiscal year 1992-93 and overstated fiscal year 1993-94 panel expenditures on the Schedule of Budgeted Program Expenditures by Object & Fund - Budget & Actual.

In our opinion, except for the effects of recording expenditures in the wrong year, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Chiropratic Legal Panel for the two fiscal years ended June 30, 1993 and 1994, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 19, 1994

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Special Revenue Funds
FUND BALANCE: July 1, 1992	$10,968
ADDITIONS	
Fiscal Year 1992-93	
Budgeted Revenue	15,144
Fiscal Year 1993-94	
Budgeted Revenue	12,900
Total Additions	28,044
REDUCTIONS	
Fiscal Year 1992-93	
Budgeted Expenditures	13,042
Fiscal Year 1993-94	
Budgeted Expenditures	8,840
Total Reductions	21,882
FUND BALANCE: June 30, 1994	$17,130

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF BUDGETED REVENUE - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Charges For Services
Fiscal Year 1992-93	
SPECIAL REVENUE FUND	
Estimated Revenue	$16,000
Actual Revenue	15,144
Collections Over (Under) Estimate	$ (856)
Fiscal Year 1993-94	
SPECIAL REVENUE FUND	
Estimated Revenue	$14,000
Actual Revenue	12,900
Collections Over (Under) Estimate	$(1,100)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

MONTANA CHIROPRACTIC LEGAL PANEL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Legal Panel Operations	
	1992-93	1993-94
OPERATING EXPENSES		
Other Services[1]	$12,501	$ 8,016
Supplies & Materials		152
Communications		2
Travel	541	550
Rent		120
Total	13,042	8,840
TOTAL PROGRAM EXPENDITURES	$13,042	$ 8,840
SPECIAL REVENUE FUND		
Budgeted	$16,000	$14,000
Actual	13,042	8,840
Unspent Budget Authority	$ 2,958	$ 5,160

[1] See note 2 on page A-7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-7.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1994

1. Summary of Significant Accounting Policies

Basis of Accounting

The legal panel uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Fund. In applying the modified accrual basis, the panel records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the panel incurs the related liability and it is measurable.

Expenditures may include entire budgeted service contracts even though the legal panel received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The legal panel uses the following fund:

Governmental Fund

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The legal panel's entire operation is accounted for in a Special Revenue Fund.

2. Operating Expenditures

The legal panel's "other services" expenditures include the management fee paid to the panel director, and the costs associated with conducting panel reviews.

3. Related Parties

Mary Lou Garrett is director of both the Montana Chiropractic Association and the Montana Chiropractic Legal Panel. The executive director of the Association appoints the director of the panel, subject to approval of the chief Justice of the Montana Supreme Court.

Panel Response

MONTANA CHIROPRACTIC LEGAL PANEL

P.O. Box 1098
Helena, MT 59624

Director:
Mary Lou Garrett

Telephone: (406) 442-7275

November 29, 1994

Scott A. Seacat
Legislative Auditor
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The following is my response to the Finding and Recommendations of the financial compliance audit for the two fiscal years ended June 30, 1994.

Recommendation #1

We recommend the panel implement procedures to ensure the panel receives the revenues to which it is entitled.

Response

Concur. Current year revenues are monitored from daily transaction listing. When errors are noted, the staff of the Board of Chiropractors is immediately contacted for explanation and correction.

Recommendation #2

We recommend the panel record its financial activity on the state's accounting System in the proper fiscal year.

Response

Concur. Current director has complete understanding of SBAS and year end deadlines.

Sincerely,

Mary Lou Garrett
Director